

# The Effect of Corporate Governance in Palestine on the Efficiency of Internal Audit: Empirical Evidence

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## Abstract

This paper comes to examine the impact of corporate governance in Palestine on the efficiency of internal audit from the reality of the listed corporations in the Palestine Exchange; [PEX]. The population of this paper consists of all the 25 listed Palestinian companies in the Palestine Exchange that have internal auditor. It also includes another 5 companies that rely on the internal audit by external companies. Hence, the number of the reviewed companies by this study is 30 companies (Palestine Exchange Market). Thereupon, 30 questionnaires were distributed and retrieved. However, this manuscript states a summary of the most important results. These results are explained as is shown in the following: (1) the findings of the study state that there is an effect of applying the variables of corporate governance altogether on the quality of the internal audit of the listed public companies in the Palestine Exchange. These rules are (disclosure and transparency, accountability, responsibility, justice, and independency). (2) The results of the study indicate that there is a significant effect of applying the corporate governance variables individually on the quality of the internal audit of the listed public companies in the Palestine Exchange. Thus, the effect of these variables appears contrasted respectively as the following: disclosure and transparency, justice and accountability, independency and responsibility. (3) The corporate governance represents combining the right practices and procedures which operate within the standards and rules that governed by the obligatory standards. These standards aim at ensuring that there aren't any contradictions between the strategic goals of the company and the functional procedures of the administration in achieving these goals. (4) The internal audit adds value to the company through the functions that enhance its performance within corporate governance. This includes providing information to all levels of the management, evaluating the system of the internal control and the risk management, in addition to sticking the company with the principles of corporate governance. The findings of the study come up with the following recommendations: (1) the study assures the importance of applying the corporate governance principles because of their clear effect on the internal audit quality. It also recommends working efficiently on the professional development of the auditors and improving their performance through training programs, as well, encouraging them to keep up with the latest developments in the field of the auditing and other related fields. (2) It strongly recommends working on enhancing and activating the role of the board of directors and the audit committee; as well as granting them the independency. Hence, they will be able to carry out the tasks assigned to them. Consequently, they will avoid the effects that the company may be exposed to as a result of the internal weakness of the practical aspects of the principles of corporate governance; in addition to the negative impacts of this issue on the quality of the internal audit.

**Keywords:** internal audit, corporate governance, Palestine Exchange, conflict of interest, disclosure, transparency, accountability, responsibility, justice, independency

## 1. Introduction

The economic and financial realities in Palestine have witnessed lots of development lately; as well as the appearance of several modern strategies and concepts in the Palestinian economic system subsequently to the establishment of public companies. The appearance of these companies and new development in economy altogether brought various economic concepts which the Palestinian companies haven't been used before this new era. Thus, the most eminent concept appears to be the internal audit and corporate governance; in addition to

establishing their own committees.

The internal audit turned out to be an important management for public companies. Thus, the standing of the internal audit takes increasingly further importance when the company gets bigger and when the number of users of financial statements is increased. Hence, the task of auditing will become more difficult because of the fact that this data is the base on which the users depend on for decision-making.

Globalization and the rapid development in modern means of communication led to create a new atmosphere for competition on the local and external levels of the operating companies in Palestine. In recent years, the Palestinian Authority issued a number of legislations to organize the private sector including corporate governance rules due to its importance for the Palestinian economy. Thus, "They established the National Committee for Corporate Governance in Palestine. The Committee decided to create a technical team to work on drafting the code of corporate governance depending on the principles and an action plan developed by this committee. The technical team aims at preparing the rules of corporate governance in Palestine in accordance with the conditions and legislation in Palestine, taking into account the international principles and standards regarding corporate governance at the regional and international levels (Code of Corporate Governance for Palestinian companies).

The eminent role of both internal audit and corporate governance in economy increases the importance of this study which tries to find relationship between these two terms; especially the effect of rules for applying the governance in the company on the quality of internal audit. Hence, this study is one of the few studies in Palestine that aims at finding a relationship using basic measurements so as to value the effectiveness of the internal audit under the governance of the Palestinian companies.

However, this study contains a questionnaire so as to achieve its goals. The questionnaire distributed among the listed public companies in the Palestine Stock Exchange which has a committee of internal audit.

There is no doubt that the separation of ownership from the management of public companies and the permanent pursuit of the company's administration to achieve personal interests by drawing the company's strategies or by using innovative accounting system; would lead to a direct impact on the overall situation of the company's interests. This also would affect the granted confidence to the managers by the board of directors. Hence, it comes to be a necessity to create the internal audit department, which provides the board of directors with the general situations of the company. Therefore, there are many variables that affect the achievement of operating the internal audit efficiently and in the right and desired way. However, the most important variable that needs to be studied carefully is applying the rules of corporate governance. Hence, the problem of this study explores the following key question: What is the effect of corporate governance in Palestine on the efficiency of the internal audit?

## 2. Previous Studies

The previous studies have an important role to establish a conceptual framework and a fundamental base to clarify the basic aspects of this study. Unfortunately, a few and insufficient studies were found about the Palestinian economy reality. Hence, the study referred to Arabic studies related to the subject of governance and its impact on the internal audit. The following is a review of some of these studies.

The paper of (Tabara & Ungureanu, 2012) shows that the corporate governance implies a cycle that extends from the steering and monitoring role of the board, to the administrative and operational executives and the role of internal and external auditors certification. These roles come from three different levels of governance. Efficiency level can impact another, but also governance throughout the organization. In this sense, the system includes all activities, from monitoring, operation and control to the processes and activities to meet the needs of different stakeholders. Implementing a system of corporate governance involves the basic principles leading to relations between different participants, to define responsibilities and ensure the correct operation of the decision making process. A well, based information system is essential for optimal functioning of organizations, but also for their future development.

The paper of (Al-Jabali, Abdalmanam, & Ziadat, 2011) shows that the regulatory controls are in force in any company has been developed to face the major risk of the institution. The management of the company or organization applies supervisory controls. While other participants in the governance (And here is the Internal Auditor) Playing a more role in Supervisory control or evaluation, Where can the Internal Auditor providing assurances about the supervisory controls, and that in terms of assessment of the procedural methods in senior management.

The paper of (Karagiorgos et al., 2010) shows that within the globalized economy, internal auditing is

established as an essential means for the exact management of any business economic resources. Simultaneously, corporate governance has received wide attention in recent years both in practice because of the major accounting scandals and large-scale corporate failures. In this concept, the main purpose of the present paper is to examine in a theoretical level the contribution of internal auditing to corporate governance. Furthermore this paper aims to examine the interaction between various corporate governance factors, such as the board of directors, the audit committee and the external auditor, and the internal audit process. Via an extended literature review, the study's originality is the provision of an integrated conceptual framework regarding internal audit and business corporate governance. The results of this literature review indicate that internal auditing plays a vital role in effective corporate governance.

Moreover, the study of (Zuelf & Jawhar, 2007) explores the relationship between the internal control elements and the corporate governance. As well as, it clarifies the level to which have these elements contributed in enhancing the basics of internal control and corporate governance. The study shows a set of results emphasizing that the success of corporate governance requires adopting the internal control elements by the financial organizations. Hence, all of these elements have an important role in enhancing the corporate governance.

Furthermore, the study of (Joshua, 2006) provides a proposal aims at improving the company governance through the insurance of the financial statement risks as well as eliminating the conflict of interest. However, the conflict of interest is a permanent source of threat to the relationship between the internal auditor and the clients, which also affects the quality of financial statements.

Therefore, the study of (Mangena & Pike, 2005) aims at exploring the relationship between corporate governance and the level of disclosure. This study figured out this relationship through studying the impact of some of the company's shareholders and the size of audit committee in addition to the experience in financial issues on its performance. Hence, the study concludes a set of results. The most important result states that there is a statistical relationship amongst the level of disclosure, the characteristic of the shareholders, the size of audit committee as well as the experience in financial affairs.

The study of (Rezaei, 2003), explores the business of American firms so as to identify the role of audit committees in improving the joint ruling of the organization. Thus, this study suggests some guiding principles for institutional governance. However, the most important pointer of these guiding principles is choosing the company's Chief Executive Officer (CEO) by the board of directors. Also, it must be taken in account that the management of the company must control operational activities and preparing the financial statements of the company effectively and in ethical way to raise the gained shareholder value.

Similarly, the study of (Juma, 2003) explores the corporate governance issue and the dimensions of development in using the internal audit. It also explains the impact of development in using the internal audit to support the corporate governance in the Jordanian companies within the local legislations.

### **3. Theoretical Framework**

#### *3.1 Corporate Governance and Internal Audit*

However, various literatures show that corporate governance can achieve its objectives by relying on the basics of internal control. The basics of internal control are explained as in the following:

1)- Disclosure and transparency: transparency means providing data in order to protect the shareholders' future and to make the community recognizes that the organization is able to fulfill its obligations. Thus, Transparency is an important element to ensure justice, fairness and confidence when applying the procedures taken by the management of the organization and its personnel, (Khoury, 2003, p. 3). As well as, the importance of transparency arose after the growing of the economic role of the financial markets, and when the financial statements become an important source of information for decision-making (Mat'ar, 2003, p. 5). However, the information that is revealed with financial reports is provided in the form of notes or attached tables or within the financial statements. As well as, this information is a fundamental part of these financial statements. Hence, the disclosed data must be revealed in honest and fair way and with objectivity amongst all shareholders and stakeholders in time and without delay.

2)- Accountability: it means the responsibility of the organization to perform a continuous reviewing and evaluation of the management by the relevant parties such as stakeholders, personnel, in addition to the community. This could be applied by providing the organization internally with controlling structure representatives including committees of independent audit as well as the internal controlling to carry out its duties independently.

However, (Hermanson & Rittenberg) explained that the achievement of the organization targets require the

following parties to undergo questioning before the stakeholders. These parties are the board of directors, the audit committee, senior management, internal audit and external audit (Hermanson & Rittenberg, 2003, p. 30).

3- Responsibility: it means that the company must have a moral message to be carried out in the community and that managers recognize that they have a duty toward the working staff, improving the services provided to them, and to protect the environment, too. (Carroll, 2003, p. 4). Hence, (Credit Lyonnais SA) Bank explains responsibility in the following paragraphs (Gill, 2003, p. 66): Responsibility is the existence of the efficiency and effectiveness of the board of directors, developing punishment procedures that allow punishing executives and board of director members, in addition to act effectively against individuals who exceed their limits. Also, there should be transparency and fairness in dealing with stocks by the members of the board of directors.

4- Justice: it means to respect the rights of the stakeholders in the company, and distributing the tasks, duties and responsibilities among employees on the basis of justice and equality (the Saudi Organization for Certified Auditors, 2007, p. 14). Hence, the Organization for Economic Cooperation and Development (OECD) assured the need to develop systems aiming at preventing workers of the organization including managers from taking advantage of their positions. As well, the members of the board of director must declare any personal interests in the organization's operations.

5- Independency: Independency aims at reducing or eliminating conflicts of interest by creating independent committees, appointing auditors and preventing any domination of any party or side to control or affect the decisions of the board of directors (Khoury, 2003, p. 3). Also, the internal audit standards issued by the Institute of Internal Auditors in the United States emphasized on the importance of the independency and objectivity of the internal auditor in performing the duties especially when these duties relate to the highest position in the organization. Moreover, it stressed that the auditor must have integrity without any bias or conflict of interest (Jane, 2003, p. 242).

Hence, the internal audit role should not be limited to the financial field, but it must be comprehensive to all aspects of the organization (Abdullah, 2000, p. 181) states that the internal audit is "a set of systems or different independent activities of the project that is established by the administration. It firstly aims at recognizing the transactions and entries in a continuous way in order to ensure the accuracy of both the accounting and statistical data. The second purpose comes to ensure the adequacy of the value of reserves to protect the assets and property of the project; as well as ensuring that the project staff follow the policies and administrative plans and drawn procedures. Also, it measures the validity of those plans, policies and all other means of control in the performance; in addition to suggesting improvements until the project reaches the point of maximum production efficiency".

Regarding professional organizations, the Arab Society of Certified Accountants (ASCA, 2001, p. 227) defines the internal audit as "an internal function of the department established to reflex the activity of internal independently in order to establish administrative control, including accounting control evaluate matching system with the requirements of the department or to work on the proper use of resources in order to achieve maximum production efficiency.

### *3.2 Quality of Internal Audit*

Quality is defined briefly as the level of matching the requirements of the organization where the organization seeks to monitor the performance and the activities; in addition to measure its daily transactions to reach the highest degree of quality. This would be achieved by reducing errors and detecting variances report which leads to meet the needs of the management. The internal audit quality depends on the quality of performance of the internal control system and the appropriateness of the applied accounting system that aims to reach the efficiency and proper effectiveness in the transactions and entries. This performance must be continuous to achieve the objectives of the organization in order to serve and protect the assets (Al-Qadi, 2008, p. 103).

Professionally, audit quality is defined as the ability of the audit to identify the weaknesses in the internal control system, and make recommendations to get rid of these faults or reduce them. Thus, the possibility of achieving the maximum benefit to the organization will be increased. Academically, audit identified as a commitment to both auditing standards and rules of ethical behavior when doing the task of auditing (Dirdis, 2010, p. 40).

The standards of internal and external audit categorize the vital factors to determine and ensure the internal audit quality. Hence, the American Institute of Certified Public Accountants (AICPA, 1991) states the list of auditing standards No. 65 indicates that the quality of the internal audit includes the qualification factors that measured through the academic qualification and professional certificates and objectivity. Thus, these standards are measured by the internal audit reports and the board responsible for the appointment or dismissal of internal

auditors. The quality of the transactions performance is measured by the accuracy and adequacy of audit programs and the scope of the auditing. In contrast, the Institute of Internal Auditors standards explain the quality factors of the internal auditing with independency, objectivity, professionalism, and proper care (IIA, 2003).

#### 4. Hypotheses

This study focuses on a specific theme titled ‘the effect of corporate governance in Palestine on the efficiency of internal audit’. This theme deals with one major hypothesis with two major variables. The first variable is static, represents applying the rules of governance. The second variable is dependent, represents the effectiveness and efficiency of internal audit. Hence, the first hypothesis question is: Is there an effect of applying the rules of corporate governance on the effectiveness of the internal audit? If the answer is yes; what is the level of this effect?

However, this hypothesis results the following sub-hypotheses:

- I. The first sub-hypothesis states that applying the disclosure and transparency haven’t significant statistical effect on the quality of internal auditing of the listed public Palestinian companies in the Palestine Exchange.
- II. The second sub-hypothesis explains that there is no significant statistical effect of applying accountability on the quality of internal auditing of the listed public companies in the Palestine Exchange Market.
- III. The third sub-hypothesis clarifies that there is no significant statistical effect of applying responsibility on the quality of internal auditing of the listed public companies in the Palestine Exchange Market.
- IV. The fourth sub-hypothesis states that there is no significant statistical effect of applying justice on the quality of internal auditing of the listed public companies in the Palestine Exchange Market.
- V. The fifth sub-hypothesis clears up that there is no significant statistical effect of applying independence on the quality of internal auditing of the listed public companies in the Palestine Exchange Market.

#### 5. Methodology

This section of the paper presents the methodology as following:

##### 5.1 Data

The methodology of this study relies on examining the companies that have corporate governance rules and own a specialized internal audit department and internal auditor. It also relies on the companies that depend on the internal auditing by external companies. Furthermore, it prepares questionnaires and distributed them to these companies. Then, it analyses the given data of the distributed questionnaires by using the statistical package for the social sciences (SPSS) to identify these results and then coming up with the recommendations.

##### 5.2 Population and Sample

The population of this paper consists of all the 25 listed Palestinian companies in the Palestine Exchange that have internal auditor. It also includes another 5 companies that rely on the internal audit by external companies. Hence, the number of the reviewed companies by this study is 30 companies (Palestine Exchange Market).

##### 5.3 Paper Tool

This study employs a questionnaire as the variables of the study required; where this questionnaire consists of two parts. The first part aims at recognizing the demographic factors of the members of the study sample. In contrast, the second part focuses on the statements of the study variables that measure the effect of applying corporate governance on the quality of the internal audit. These variables are explained as disclosure and transparency variable, accountability variable, responsibility variable, justice variable, independency variable, in addition to the internal audit quality variable.

#### 6. Descriptive Statistic

Table 1 explains that the highest percentage of scientific specialization that rates 50% is in accounting. The finance comes secondly; rating 27%. Business administration comes thirdly, rates 23%. These findings state that the population of the study sample are qualified to work in the accounting and financial field.

Table 1 also illustrates that 73% of the population hold bachelor degree; whereas the percentage of those who obtain a master’s degree is 17%. In contrast, the PhD holders take 10%. Hence, we notice that the level of educational degree of the study population is high. That’s because the education in Palestine is considered as an

important element in life.

Table 1 also shows that the percentage of accountants is 43%, whereas, the internal audit managers and the internal auditors come with 40% of the study sample. In contrast, the chief of accounting departments come with 17%)of the study sample which is the lowest one. However, the percentage of accountants is 43% which is the highest percentage of the study sample over the rest of the other majors.

Therefore, Table 1 states that the percentage of the study sample are experts in their fields by 5 years or less, rating 26%. Also, the percentage of the study sample are experts in their fields 6-10 years rates 7% of the study sample. The category 11-15 years rates 30%. Also, the category 16-20 years rates 13%. The 21 years and more represent 27%. This indicates that the experience of the study sample population is sufficient enough to do their tasks. It gives them additional positive specifications which qualify them to deal with the accounting matters professionally. Also, the aforementioned features show the ability of the study sample to understand the questionnaire questions and answer them.

Table 1. The Distribution of the study sample according to the demographic specifications

Variable	Explanations	Frequencies	%
Specialization	Accounting	15	50
	Finance	8	27
	Public Administration	7	23
Academic qualifications	Bachelor	22	73
	Master	5	17
	Ph.D.	3	10
Position	Manager or internal audit	12	40
	Head of accounting department	5	17
	accountant	13	43
Experience period	5 years and less	8	26
	6-10 years	2	7
	11-15years	9	30
	16-20 years	4	13
	More than 21 years	7	27

## 7. The Results

Presented below are the results of this paper that classified according to the variables of this paper:-

### 7.1 Disclosure and Transparency Variable

Table 2. Arithmetic means and standard deviations of the disclosure and transparency variable

Item	Average	Standard Deviation	Sig.
The disclosure of important information proceeds in a fair, unbiased and honest manner.	4.15	0.712	High
The disclosure of important information is objective, honest and straight.	4.125	0.852	High
The disclosure of important information meets the deadline and without delay.	3.985	1.056	High
Information is provided regarding the largest ownership of the shares in the company.	3.785	1.452	Medium
Providing information regarding the members of the board of directors.	3.425	1.236	Medium
Providing information with respect to the chief executives.	3.521	1.158	Medium
Mean	3.831	0.953	High

Table 2 states that the significant level of the disclosure and transparency variable ranged between high to medium; where their arithmetic averages rate 3.425 - 4.15. The general result shows a high level of the impact of disclosure and transparency in the quality of internal audit of the listed Public companies in the Palestine

Exchange. Hence, the arithmetic average of the study sample answers rates 3.831. The standard deviation rates 0.953. The aforementioned low value indicates that the answers of the study sample are nearly close and similar. As well, this result matches the findings of the study of (Fateh & Ai'she, 2008) which shows the importance of corporate governance as monitoring framework to ensure the honesty and integrity of the revealed financial data.

### 7.2 Accountability Variable

Table 3 shows that all of the levels of the accountability variable are significantly high in term of influence; wherein the deviation averages rate 3.785-4.128. Hence, the general result of the study sample states that there is a high level of influence of accountability on the quality of internal audit of the listed public companies in the Palestine Exchange. The arithmetic average of the answers reaches 3.912. In contrast, the standard deviation reaches 0.927 which shows resemblance between the answers to some extent.

Table 3. Arithmetic means and standard deviations of the accountability variable

Item	Average	Standard Deviation	Sig.
An assessment and evolution are made regarding the performance of the executive management.	3.785	0.816	High
The tasks that ensure doing the transactions accurately by the rest of the company's staff are implemented.	4.128	0.922	High
Periodic reports of the results of the transactions are provided.	3.924	1.089	High
The level of success in applying the periodic reports is evaluated	3.812	0.910	High
Mean	3.912	0.927	High

### 7.3 Responsibility Variable

Table 4 indicates that the significant levels of the responsibility variable rate between high and medium with deviation average between 3.562-4.012. Hence, the general result of the study sample states that there is a high level of influence of the responsibility variable on the quality of internal audit in the listed public companies in the Palestine Exchange. Furthermore, the arithmetic average of the answers reaches 3.861. In contrast, the standard deviation reaches 0.981 which shows resemblance of the answers to some extent.

Table 4. Arithmetic means and standard deviations of the responsibility variable

Item	Average	Standard Deviation	Sig.
There is emphasis and assurance on the ethical message of the company in the community.	3.925	0.912	High
Managers are committed to their responsibilities towards the community.	4.012	0.825	High
There is a commitment with the responsibility for protecting the environment.	3.562	1.035	Medium
There is a commitment with the obligations toward the employees in improving the services provided to them.	3.921	0.815	High
There is a commitment with the responsibilities toward the shareholders in achieving the appropriate returns.	3.892	1.082	High
Mean	3.861	0.981	High

### 7.4 Justice Variable

Table 5 explains that all of the significant levels of justice variable achieve the highest level of influence where these levels rate 3.785-4.054. Hence, the general conclusion of the study sample shows a high significant level of influence for the justice variable on the quality of internal audit in the listed public companies in the Palestine Exchange. Therefore, the arithmetic average reaches 3.891; while the standard deviation reaches 0.915. This low value indicates that the answers of the study sample are convergent to some extent. Hence, this result is consistent with (Rezaee, 2003) study, which is one of the guiding principles about the management responsibility for preparing financial statements under the supervision of the board of directors and the audit Committee. Its purpose aims at exposing the financial position of the company fairly and at a certain date; in addition to show the results of its transactions in a specified period of time.

Table 5. Arithmetic means and standard deviations of the justice variable

Item	Average	Standard Deviation	Sig.
The rights of all stakeholders in the company are respected.	3.921	0.801	High
The distribution of the tasks and duties among the company' employees are distributed on the basis of justice and equality.	4.054	0.920	High
The shareholders are treated on the basis of justice and equality.	3.785	1.0352	High
The revenue of the company is distributed on the basis of justice and equality.	3.812	1.052	High
Mean	3.891	0.915	High

### 7.5 Independency Variable

Table 6 shows that all of the significant levels of the independency variable reach the medium level of influence. Hence, the general conclusion of the study sample shows a medium significant level of influence for the independency variable on the quality of internal audit in the listed public companies in the Palestine Exchange; wherein these levels rate between 2.620 - 3.621. As well, the arithmetic average reaches 3.354; while the standard deviation reaches 1.19. This result is consistent with the findings of (Isa, 2008) study, which identifies that increasing the objectivity of internal auditors by expanding the level of independency leads to improve the quality of the internal auditing.

Table 6. Arithmetic means and standard deviations of the independency variable

Item	Average	Standard Deviation	Sig.
The auditor is not exposed to any effects while doing the tasks.	3.521	1.25	Medium
The auditor accomplishes the work with objectivity and integrity and without any bias or conflict of interests.	3.621	1.13	Medium
The employees of the company have an intellectual independence in relation to all of the works assigned to them.	3.412	1.23	Medium
The employees avoid any relationship that may lead to lose their objectivity and expose them to the dominance of other parties.	3.598	1.25	Medium
There is a relationship between lacking of objectivity and independency when doing the assigned tasks.	2.620	1.18	Medium
Mean	3.354	1.19	Medium

### 7.6 Internal Auditing Quality Variable

Table 7. The arithmetic means and standard deviations of the internal audit quality variable

Item	Average	Standard Deviation	Sig.
The level of education contributes in improving the quality of the auditor' performance.	4.26	0.44	High
Having a professional certificate contributes in improving the quality of the internal auditor performance.	4.48	0.50	High
Continuing education contributes in improving the quality of the professional performance of the auditor.	4.60	0.49	High
The professional experience of the internal audit contributes in improving the quality and the performance of the internal auditor.	4.22	0.68	High
Previous knowledge regarding the transactions and the work procedures of the company contribute in improving the quality of the performance of the internal auditor.	4.36	0.48	High
The technical training contributes in improving the level of performance of the internal auditor.	4.62	0.48	High
<b>Average of the eligibility index</b>	<b>4.42</b>	<b>0.51</b>	<b>High</b>
Providing the internal audit report for the senior management and the audit committee contributes in improving the quality of the internal audit.	3.85	0.59	High
The appointment, promotion, upgrading and the dismissal of the internal auditors by the senior management and the audit committee contribute in improving the performance quality of the internal audit.	3.75	0.65	High
The external auditors contribute in improving the internal audit functions quality and the performance of the internal audit function.	4.13	0.60	High
The internal auditor ties with the senior management contribute in improving the performance quality.	4.39	0.49	High



<b>The average of objectivity variable</b>	<b>4.03</b>	<b>0.58</b>	<b>High</b>
The accuracy and efficiency of the internal audit programs enable improving the quality and performance of the internal audit.	4.00	0.52	High
The internal auditor professional care contributes in improving the quality and performance of the internal audit.	3.97	0.50	High
The senior management support for the internal audit function contributes in improving the internal audit performance.	4.11	0.31	High
The assessment of the performance quality by external parties contributes in raising the performance level of the internal audit.	4.11	0.32	High
The adequacy and the scope extent of the internal audit function lead to achieve the quality and performance of the internal audit.	3.45	0.73	Medium
<b>Average of the performance quality index</b>	<b>3.92</b>	<b>0.38</b>	<b>High</b>
<b>The internal audit quality variable average</b>	<b>4.15</b>	<b>0.49</b>	<b>High</b>

Table 7 explains the three groups of the internal audit quality variable. Hence, the first group has six paragraphs that deal with the appropriateness index. Whereas, the second group, which includes four paragraphs is related to the objectivity index. In contrast, the third group relates to the performance quality and includes the last five paragraphs. Herein, Table 7 states the following explanation:

A. The arithmetic mean of the eligibility index rates 4.22-4.62, wherein the arithmetic average of the answers reaches 4.42. In contrast, the standard deviation rates 0.51, which indicates that the study sample answers are convergent and similar to some extent.

B. The arithmetic mean for the objectivity index ranged 3.75-4.39, whereas the arithmetic average reaches 4.03. In contrast, the standard deviation reaches 0.58. These results show that the answers of the study sample are harmonized to some extent.

C- The arithmetic averages of the quality of work performance index ranged 3.45-4.11. The arithmetic average reaches 3.92. In contrast, the standard deviation reaches 0.38. This conclusion shows coherence between the study sample answers to some extent.

D- The arithmetic average of all the relevant statements of internal audit quality variable reaches 4.15. As well, the standard deviation reaches 0.49. These results show that the answers of the study sample population are harmonized to some extent regarding the expected significant role of the aforementioned indicators.

## 8. Hypotheses Testing

Presented below are the results of the hypotheses:

### 8.1 Testing the Main Hypothesis

The main hypothesis is tested by using the multiple linear regression analysis (Multiple Regression) to realize the impact of the constituents of corporate governance variables on the quality of the internal audit. These constituents are: disclosure, transparency, accountability, responsibility, justice, and independency.

The data of Table 8 explains that there's a significant statistical effect for all of the constituents of the corporate governance on the quality of the internal audit. These constituents are (disclosure and transparency, accountability, responsibility, justice, independency, in addition to laws and regulations); wherein the multiple regression R reaches 0.692. As well, The R square variance interpretation rates 0.389 of the variance of the dependent variable. This means that its value is 38.9% of the changes in the quality of the internal audit. This value results from the changes in the constituents of governance altogether (disclosure and transparency, accountability, responsibility, justice, and independency). The significance of this impact is assured by the value of calculated F that rates 2.39, and statistically is significant at (0.05).

Table 8. Results of the OLS of the constituents of corporate governance and the internal audit quality

	Regression Coefficient	Calculated F	(R) R Square	Correlation Coefficient	Dependent Variable
0.25	Disclosure and Transparency				Quality of Internal Audit
0.15	Accountability				
0.14	Responsibility	2.39	0.389	0.692	
0.24	Justice				
0.16	Independency				

\* The effect is significant at 0.05.

The following results of variance analysis shown in Table 9 assure the abovementioned findings. Hence, the value of calculated F rates 3.01; which is more than the tabular value that reached (2.29), with a significant value at (0.05). As a result, it rejects the null hypothesis and accepts the alternative hypothesis; which states that “there is a significant statistical effect on the quality of the internal audit in the listed public corporations in the Palestine Exchange by applying the constituents of corporate governance represented by: disclosure and transparency, accountability, responsibility, justice, and independency.

Table 9. (ANOVA) effect of the constituents of corporate governance on the quality of the internal audit

Variable	Variance Source	Sum of Squares	Degree of freedom DF	Calculated F	Tabular F	Sig.	Result
Constituent of Corporate Governance	Between Groups	0.115	1	3.01	2.29	0.0	Rejection of Null Hypothesis
	Among Groups	5.071	29				
	Total Variance	5.186	30				

\* The effect is significant at 0.05.

The effect of applying the constituents of corporate governance on the quality of the internal audit is assured independently. As well, the main hypothesis is divided into six sub-hypotheses. Then, the simple regression analysis (Simple Regression) is used to test each sub-hypothesis individually and as will be discussed later.

### 8.2 Testing the Sub-Hypothesis

Presented below are the results of the sub-hypotheses:

#### 8.2.1 Testing the First Sub-Hypothesis

Table 10 comes up with an evident of a statistical significance effect of the disclosure and transparency variable on the quality of the internal audit. Hence, the R correlation coefficient reached 0.67. In contrast, the R square rates 0.45 of the dependent variable variance, with a significant value at 45% of the value of the internal audit quality. This results from the changes of the value of disclosure and transparency. The significance of this effect is confirmed by the value of calculated F which rates 3.315, with a significant value at 0.05. This means rejecting the null hypothesis and accepting the alternative hypothesis. Thus, there is a statistical significant effect of applying the disclosure and transparency on the quality of internal audit of the listed public companies in the Palestine Exchange.

Table 10. Simple regression analysis of the “disclosure and transparency” and the quality of internal audit

Dependent variable	Correlation Coefficient	(R <sup>2</sup> ) R square	Calculated F	Degree of freedom DF	
Internal audit quality	0.67	0.45	3.315	Between groups	1
				Residuals	29
				Total	30

\*the effect is significant at (0.05).

#### 8.2.2 Testing the Second Sub-Hypothesis

Table 11 explains that there is an evident of a significant statistical effect of the accountability on the internal audit quality; wherein the R correlation coefficient reached 0.58. The R square value of the independent variable rates 0.34. This means that 34% of the internal audit quality results from the change of the value in the accountability. The significant effect is assured by the value of calculated F which rates 5.36, where the effect is significant at 0.05. This means rejecting the null hypothesis and accepting the alternative hypothesis assures the significant statistical effect for applying the accountability on the internal audit quality of the listed public companies in the Palestine Exchange.

Table 11. Analyzing the results of the simple regression of “accountability” on the quality of the internal audit

Dependent variable	Correlation	(R <sup>2</sup> )	Calculated F	Degree of freedom	
	Coefficient	R square		DF	
Internal audit quality	0.58	0.34	5.36	Between groups	1
				Residuals	29
				Total	30

\*the effect is significant at (0.05).

### 8.2.3 Testing the Third Sub-Hypothesis

Table 12 explains that there is an evident of a significant statistical effect of the responsibility on the internal audit quality; wherein the R correlation coefficient reached 0.76. The R square value of the dependent variable rates 0.58. This means that 58% of the internal audit quality results from the value change in the responsibility. The significant effect is assured by the value of calculated F which rates 2.81, where the effect is significant at 0.05. This means rejecting the null hypothesis and accepting the alternative hypothesis assures the significant statistical effect for applying the responsibility on the internal audit quality of the listed public companies in the Palestine Exchange.

Table 12. Results of analyzing the simple regression for the “Responsibility” on the quality of the internal audit

Dependent variable	Correlation	(R <sup>2</sup> )	Calculated F	Degree of freedom	
	Coefficient	R square		DF	
Internal audit quality	0.76	0.58	2.81	Between groups	1
				Residuals	29
				Total	30

\*the effect is significant at (0.05).

### 8.2.4 Testing the Fourth Sub-Hypothesis

Table 13 explains that there is an evident of a significant statistical effect of the justice on the internal audit quality; wherein the R correlation coefficient reached 0.81. The R square value of the dependent variable rates 0.66. This means that 66% of the internal audit quality results from the value change in the justice. The significant effect is assured by the value of calculated F which rates 5.56, where the effect is significant at 0.05. This means rejecting the null hypothesis and accepting the alternative hypothesis assures the significant statistical effect for applying the justice on the internal audit quality of the listed public companies in the Palestine Exchange.

Table 13. Results of analyzing the simple regression of the “justice” on the quality of internal audit

Dependent variable	Correlation	(R <sup>2</sup> )	Calculated F	Degree of freedom	
	Coefficient	R square		DF	
Internal audit quality	0.81	0.66	5.56	Between groups	1
				Residuals	29
				Total	30

\*the effect is significant at (0.05).

### 8.2.5 Testing the Fifth Sub-Hypothesis

Table 14 explains that there is an evident of a significant statistical effect of the independency on the internal audit quality; wherein the R correlation coefficient reached 0.53. The R square value of the independent variable rates 0.29. This means that 29% of the internal audit quality results from the value change in the independency. The significant effect is assured by the value of calculated F which rates 4.28, where the effect is significant at (0.05). This means rejecting the null hypothesis and accepting the alternative hypothesis assures the significant statistical effect for applying the independency on the internal audit quality of the listed public companies in the Palestine Exchange.

Table 14. The results of analyzing the simple regression of the “independency” on the quality of internal audit

Dependent variable	Correlation	(R <sup>2</sup> )	Calculated F	Degree of freedom	
	Coefficient	R square		DF	
Internal audit quality	0.53	0.29	4.28	Between groups	1
				Residuals	29
				Total	30

\*the effect is significant at (0.05).

## 9. The Results

The following is a summary of the most important results of the study:

- 1) The findings of the study state that there is an effect of applying the variables of corporate governance altogether on the quality of the internal audit of the listed public companies in the Palestine Exchange. These rules are (disclosure and transparency, accountability, responsibility, justice, and independency).
- 2) The results of the study indicate that there is a significant effect of applying the corporate governance variables individually on the quality of the internal audit of the listed public companies in the Palestine Exchange. The effect of these variables appears contrasted respectively as the following: disclosure and transparency, justice and accountability, independency, and responsibility.
- 3) The corporate governance represents combining the right practices and procedures which operate within the standards and rules that governed by obligatory standards. These standards aim at ensuring that there aren't any contradictions between the strategic goals of the company and the work procedures of the administration in achieving these goals.
- 4) The internal audit adds value to the company through the functions that enhance its performance within corporate governance. This includes providing information to all levels of the management, evaluating the system of the internal control and the risk management, and obliging the company with the principles of corporate governance.

The findings of the study come up with the following recommendations: (1) The study assures the importance of applying the corporate governance principles because of their clear effect on the internal audit quality. It also recommends working efficiently on the professional development of the auditors and improving their performance through training programs, as well encouraging them to keep up with the latest developments in the field of the auditing and other working fields. (2) It strongly recommends working on enhancing and activating the role of the board of directors and the audit committee as well as granting them the independency. Hence, they will be able to carry out the tasks assigned to them. Consequently, they will avoid the effects that the company may be exposed to as a result of the internal weakness of the practical aspects of the principles of corporate governance; in addition to the negative impacts of this issue on the quality of internal audit.

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